

AR61

Winspear Business Reference Room
University of Alberta
1-18 Business Building
Edmonton, Alberta T6G 2R6



PANOIL RESOURCES LTD.

CORPORATE PROFILE

PanOil Resources Ltd. is an independent Canadian Corporation active in exploration, development and production of petroleum and natural gas products in Western Canada. The common shares of PanOil are listed on the Alberta Stock Exchange and trade under the symbol "PRE".

FINANCIAL AND OPERATING HIGHLIGHTS

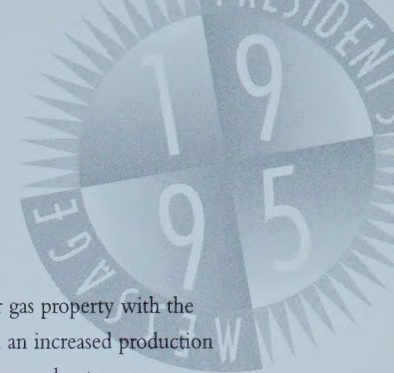
Financial	1995
Revenue	\$ 96,088
Shareholders' Equity	\$ 1,869,126
Working Capital	\$ 459,805
Shares (Common)	10,000,000
Operations	1995
Mcf of Gas per day as of December 1, 1995	750
Proven Gas Reserves (Mmcf)	2,500

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ANNUAL SHAREHOLDERS MEETING

The annual general meeting of shareholders is scheduled for Thursday, May 16, 1996
at 10:00 a.m. at the Calgary Petroleum Club, Cardium Room, Calgary, Alberta.



OVERVIEW

In 1995 PanOil Resources Ltd. completed its major stated goal of acquiring an oil or gas property with the potential for enhancement. This has resulted in PanOil exiting 1995 with an increased production rate of more than 200% compared to 1994. PanOil has also increased gross and net acreage holdings by over 400% relative to 1994.

PRESIDENT'S MESSAGE TO THE SHAREHOLDERS

The acquisition was accomplished through two Purchase and Sale Agreements whereby PanOil committed to buy 48% and 9% working interests (57% total) in the Stirling Gas Field near Lethbridge, Alberta. The purchase of the 48% working interest generated revenue attributable to PanOil as of December 1, 1995. The purchase of the 9% working interest is expected to close in April, 1996, at which time PanOil will become operator of the Stirling Field.

Upon completion of the transaction PanOil, as operator, will have a 25% working interest in the field and will have expended \$900,000 for its net interest and associated facilities. Joint Venture partners, who previously owned a portion of the field, participated with PanOil in the acquisition of the 57% interest. Following completion of the acquisition, PanOil plans to optimize depletion of the field through additional development and the implementation of a full-price gas contract. An independent engineering appraisal indicates revenue from gas sales will payout the purchase price in less than three years, and the field has a producing life of 18 years. Significant exploration potential exists on the company lands at Stirling which in total cover 24,320 acres. In particular, PanOil will be exploring for oil and gas in Cretaceous and Mississippian formations beneath the existing gas field.

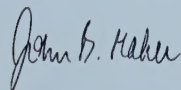
In addition to the Stirling acquisition, PanOil acquired interests in four new oil prospects during the year. Several thousands were expended to acquire seismic data on these properties and, as a result, three exploration wells will be drilled in 1996. The 1995 program has significantly increased the asset value of PanOil Resources Ltd.

OUTLOOK

During 1996, PanOil Resources Ltd. will focus on maximizing revenue from the Stirling property. This work will include the signing of a gas contract and the signing of a firm agreement to transport gas to market. PanOil will carry out development drilling once the new markets for additional volumes of gas are established. This market is expected to be established prior to November of 1996. PanOil will also be exploring the four new oil prospects in Central Alberta, and will be continuing to evaluate the Red Coulee and Creelman properties which remain highly prospective.

We thank you for your continued support and look forward to significant cash flow from our new gas property and a significant discovery in 1996.

Respectfully yours,



JOHN B. MAHER
President and C.E.O.

March 28, 1996

AREAS OF ACTIVITY

As the oil and gas industry in Western Canada shifts from acquisition-led growth to an exploration focus, the quality of the exploration plays in our inventory will be critical to our future success.

CORPORATE AND OPERATIONS SUMMARY



PanOil's areas of oil and gas exploration activity are as follows:

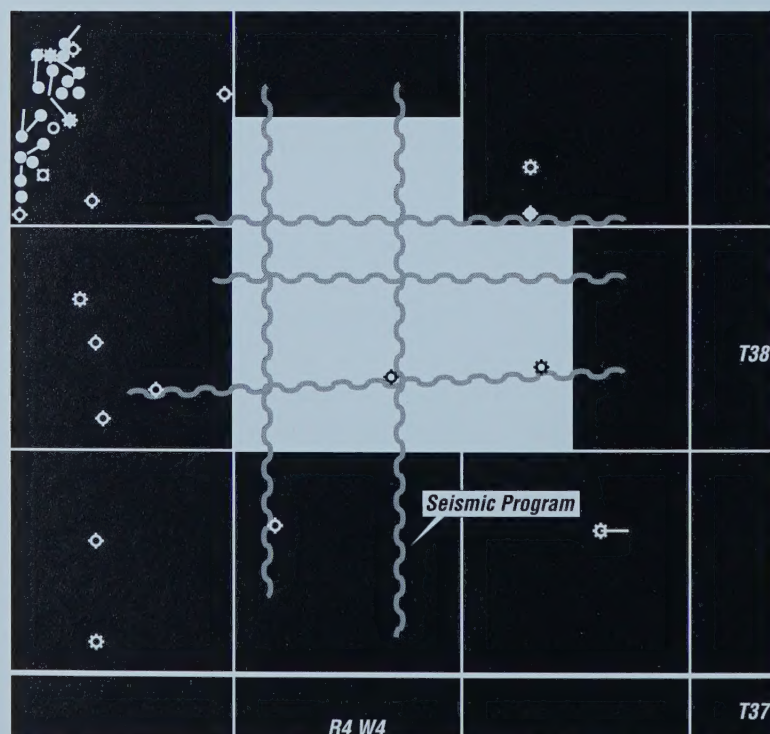
- 1 Sounding Lake, Alberta
- 2 Stirling, Alberta
- 3 Red Coulee, Alberta
- 4 Creelman, Saskatchewan
- 5 Jumpbush/Shouldice, Alberta

MAP LEGEND

 PanOil lands

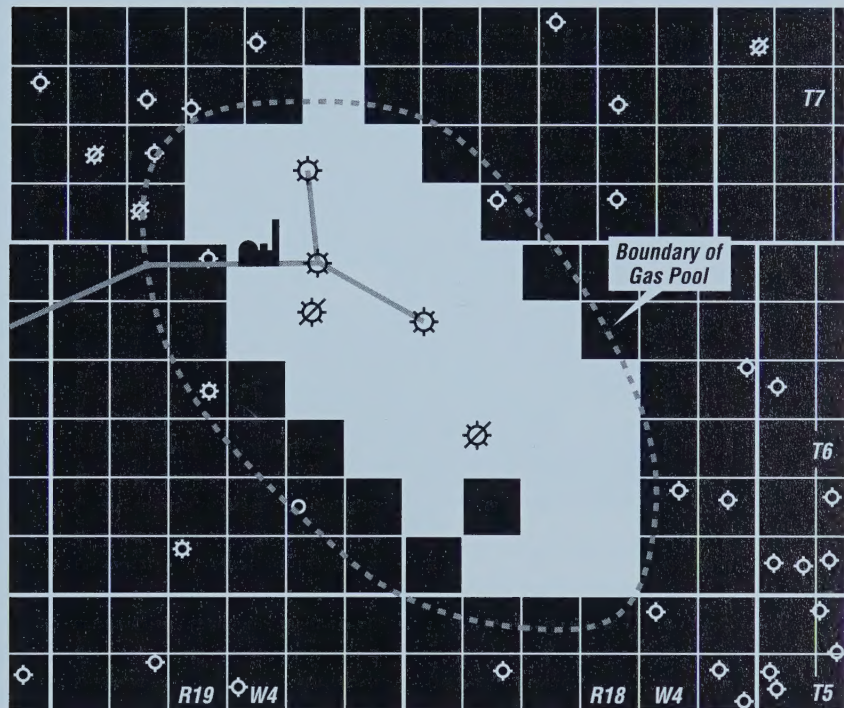
SOUNDING LAKE, ALBERTA

PanOil and a 50% working interest partner acquired an option on two sections of land in the Sounding Lake area. The option requires the shooting of seismic and the drilling of one well in order to earn a 50% working interest in the property. Seismic operations commenced in December, 1995 and 17 km of high quality data were acquired and processed. Three separate drillable anomalies have been identified. The initial earning well is scheduled for late spring, 1996.



STIRLING, ALBERTA

The Stirling property in Southern Alberta covers 38 sections (24,320 acres). In 1995, PanOil Resources Ltd. acquired a net 25% working interest which includes five gas wells and a gas plant compressor station. Three of the wells are tied-in to the compressor plant and have to date produced 16 Bcf of natural gas from a pool in the Bow Island Formation. In December the average daily production for all three wells was approximately 3.0 Mmcf/d (750 Mcf/d net to PanOil). The two additional gas wells, which have never been on production, will be tied-in once a new market is established. In this regard, PanOil is in the process of signing a five year gas sales contract.

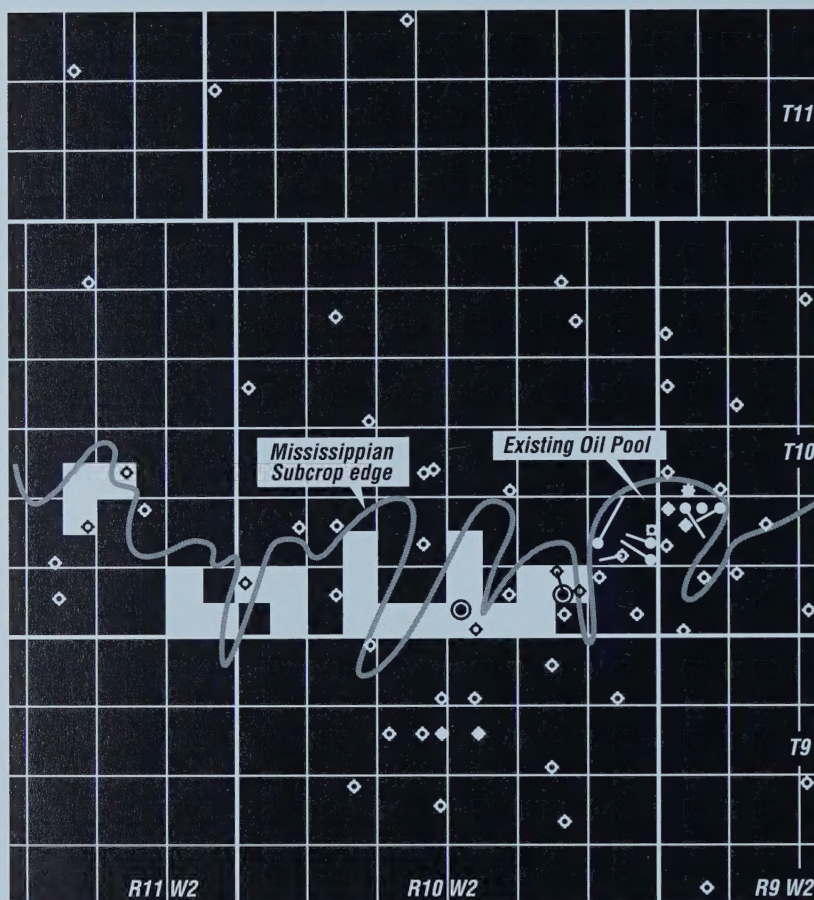


Gas is produced from a regionally extensive, fine-grained sandstone unit situated in the Bow Island Formation at a depth of 2,600 ft. (800 m). Average net pay thickness for the pool is 8.5 ft., with the thickest pay interval of 17 ft. occurring in the well located at 4-12-7-19 W4M.

The Stirling gas pool is approximately 10 miles west of the Wrentham and Taber oil fields where significant oil discoveries have been made by several companies. In the Stirling area, drilling density is low with only five or six wells per township. PanOil's inventory of unexplored acreage covers 11,680 acres of deep rights at Stirling. This acreage provides opportunities for petroleum and natural gas exploration in the same stratigraphic horizons that are productive at Taber and Wrentham.

CREELMAN, SASKATCHEWAN

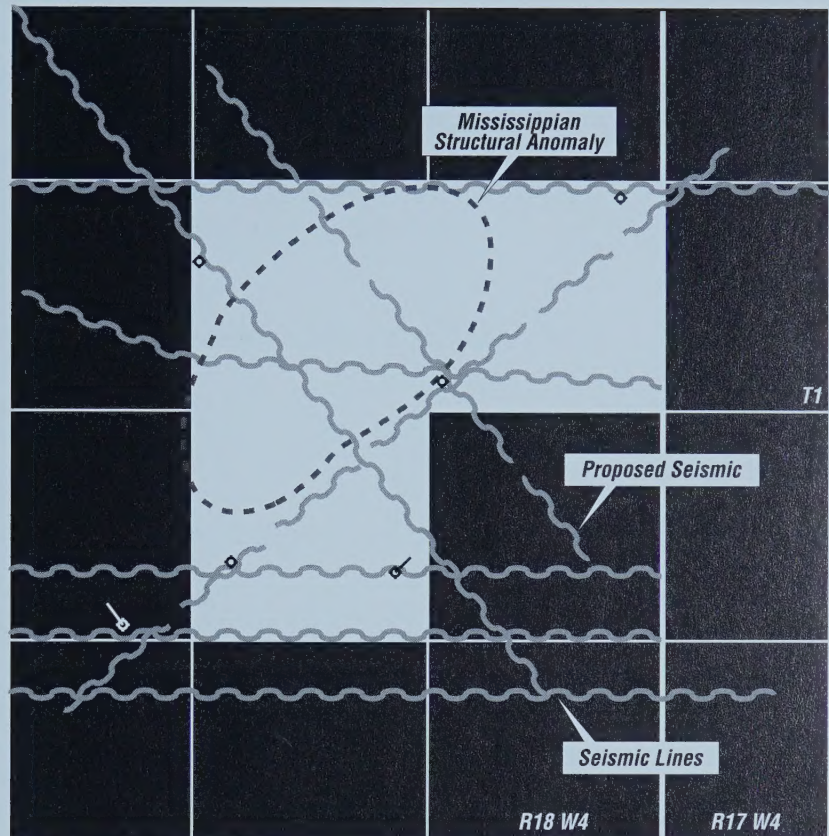
The Creelman area is located approximately 120 km southeast of Regina, Saskatchewan. In the fall of 1994 PanOil acquired working interests (ranging from 12.5% to 30%) in 5.75 sections and participated for 5% in a seismic program and exploratory well.



In May 1995 a second well was drilled in which PanOil participated for 18.75%. Both wells penetrated approximately 2 meters of oil-saturated reservoir in the Alida Formation. Thicker pay sections had been anticipated, and the operator is currently considering the economics of producing these wells.

Three undrilled structures, with potential for thicker pay zones, have been partially delineated by seismic on the same land holdings. Further evaluation work will continue in 1996 to determine potential drillable locations.

RED COULEE, ALBERTA



PanOil Resources Ltd.'s current seismic data indicates the possible presence of a significant Mississippian structure on PanOil acreage at Red Coulee. This structure has potential to contain oil in Lower Cretaceous and Mississippian formations. During 1996 PanOil plans to acquire additional seismic to confirm closure on the structure, and drill an exploratory well.

SHOULDICE/ JUMPBUSH, ALBERTA



The company has acquired a 10% working interest in three Glauconite oil prospects in the Shouldice/Jumpbush area. Three-dimensional (3-D) seismic has been acquired over two of the prospects and PanOil plans to drill two exploratory wells in 1996.



REVENUES

Early in 1995 PanOil Resources Ltd. sold its 39% working interest in an 80 acre oil producing property at Woodbend, Alberta, for \$473,088. Prior to year end PanOil had signed conditional Purchase and Sale Agreements for a 25% working interest in a property at Stirling, Alberta for a total consideration of \$900,000. As of this date, approximately \$785,000 has been expended to close, with the balance payable early in 1996. This property provided net revenue of \$21,694 for December and caused a depletion charge of \$3,500. In addition to this production revenue, PanOil had interest revenue of \$77,843 for the year.

FINANCIAL SUMMARY

GENERAL AND ADMINISTRATIVE

General and administrative expenses amounted to \$177,431 in 1995. Engineering and geological costs of \$170,000 to evaluate oil and gas acquisitions were capitalized.

CAPITAL EXPENDITURES

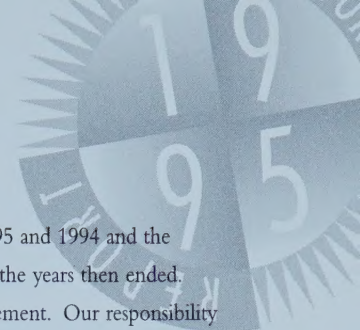
PanOil incurred the following capital expenditures in 1995:

Property Acquisitions	\$ 891,285
G & G and Seismic	139,560
Drilling Costs	139,350
Total	<u>\$ 1,170,195</u>

OUTLOOK

Budgeted capital expenditures in 1996 for land acquisition, exploration and development are currently estimated at \$500,000. General and administrative expenses for 1996 are budgeted at \$228,000. This amount does not include professional staff to augment financing and development activities. Exploration success will also require additional financing. Modest bank debt, joint venture financing, or the sale of additional equity will be considered as required.

Development of our new gas field and continuing exploration for oil and gas will make 1996 an exciting year.



We have audited the balance sheets of PanOil Resources Ltd. as at December 31, 1995 and 1994 and the statements of operations and deficit and changes in financial position for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

AUDITORS' REPORT TO SHAREHOLDERS

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the company as at December 31, 1995 and 1994 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

KPMG Peat Marwick Thorne

Chartered Accountants

Calgary, Canada

March 15, 1996



BALANCE SHEETS

PANOIL RESOURCES LTD.

December 31, 1995 and 1994

	1995	1994
ASSETS		
Current assets:		
Cash and short-term deposits	\$ 1,041,008	\$ 1,149,208
Accounts receivable	130,798	141,018
Note receivable (note 2)	—	202,000
Prepaid expenses	10,564	1,890
	1,182,370	1,494,116
Capital assets (note 3)	1,419,321	809,456
	\$ 2,601,691	\$ 2,303,572
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 722,565	\$ 36,629
Bank loan (note 2)	—	202,000
	722,565	238,629
Provision for site restoration costs	10,000	10,000
Shareholders' equity:		
Share capital (note 4)	2,443,400	2,458,400
Deficit	(574,274)	(403,457)
	1,869,126	2,054,943
	\$ 2,601,691	\$ 2,303,572

See accompanying notes to financial statements.

Approved by the Board of Directors

Director

Director

STATEMENTS OF OPERATIONS AND DEFICIT

PAOIL RESOURCES LTD.

Years ended December 31,	1995	1994
Revenue:		
Petroleum and natural gas	\$ 21,694	\$ 243,021
Royalties, net of Alberta Royalty Tax Credit	(3,449)	(12,178)
Interest	77,843	10,593
	96,088	241,436
Expenses:		
Production	2,322	23,217
Depletion, depreciation and amortization	4,418	214,904
Write-down of capital assets	82,824	206,870
General and administrative	177,341	199,902
	266,905	644,893
Net loss for the year	(170,817)	(403,457)
Deficit, beginning of year	(403,457)	—
Deficit, end of year	\$ (574,274)	\$ (403,457)
Net loss per share	\$ (0.02)	\$ (0.08)

See accompanying notes to financial statements.

STATEMENTS OF CHANGES IN FINANCIAL POSITION

PANOIL RESOURCES LTD.

Years ended December 31,	1995	1994
Cash provided by (used in):		
Operations:		
Net loss for the period	\$ (170,817)	\$ (403,457)
Items not involving cash:		
Depletion, depreciation and amortization	4,418	214,904
Write-down of capital assets	82,824	206,870
Funds from operations	(83,575)	18,317
Changes in non-cash working capital	58,716	(106,279)
	(24,859)	(87,962)
Financing:		
Receipt of note receivable	202,000	—
Repayment of bank loan	(202,000)	—
Issue of common shares	—	1,856,250
Share subscriptions receivable	—	50,000
Purchase and cancellation of options	(15,000)	—
Change in non-cash working capital	—	(40,000)
	(15,000)	1,866,250
Investments:		
Capital dispositions	473,088	—
Capital expenditures	(1,170,195)	(452,283)
Acquisition of Gamma Oils Inc. (note 2)	—	(650,000)
Deferred costs	—	(13,179)
	(697,107)	(1,115,462)
Change in non-cash working capital	628,766	—
	(68,341)	(1,115,462)
Increase (decrease) in cash	(108,200)	662,826
Cash, beginning of period	1,149,208	486,382
Cash, end of period	\$ 1,041,008	\$ 1,149,208

See accompanying notes to financial statements.

December 31, 1995

1. SIGNIFICANT ACCOUNTING POLICIES:

The accompanying financial statements are prepared in accordance with accounting principles generally accepted in Canada.

(a) Petroleum and natural gas operations:

The Company follows the full cost method of accounting whereby all costs associated with the exploration for and development of petroleum and natural gas reserves are capitalized. Such costs include land acquisition costs, geological and geophysical costs, lease rental costs on non-producing properties, costs of both productive and unproductive drilling, production equipment and overhead charges directly related to these activities, net of government grants. Gains or losses are not recognized upon disposition of petroleum and natural gas properties unless crediting the proceeds against accumulated costs would result in a change in the rate of depletion of 20 percent or more.

NOTES TO FINANCIAL STATEMENTS

Accumulated costs, less the costs of acquisition of unproved properties, are depleted and depreciated using the unit-of-production method based on total proved reserves after royalties. Furniture and equipment are depreciated on a straight-line basis over the estimated useful lives of the assets.

The costs of acquiring and evaluating unproved properties are initially excluded from depletion calculations. These properties are assessed periodically to ascertain whether impairment has occurred. When proven reserves are assigned or the property is considered to be impaired, the cost of the property or the amount of impairment is added to the costs subject to depletion.

The net carrying cost of the Company's petroleum and natural gas properties is limited to an estimated recoverable amount being the aggregate of future net revenues from proved reserves, less future site restoration and capital costs, the costs of undeveloped properties net of allowances, future general and administrative costs, financing costs and income taxes. Future net revenues are calculated using prices and costs in effect at the year end without escalation or discounting. Recently acquired properties are generally excluded from the cost recovery test for two years after acquisition.

(b) Joint ventures:

Substantially all of the exploration, development and production activities of the Company are conducted jointly with others. These financial statements reflect only the Company's proportionate interest in such activities.

(c) Provision for site restoration costs:

Estimated future site restoration costs are provided for using the unit-of-production method. Costs are estimated by the Company based on current regulations, costs, technology and industry standards. The annual charge is included in the provision for depletion, depreciation and amortization. Actual site restoration costs are charged to the accumulated provision account as incurred.

(d) Per share information:

Loss per common share for 1995 is calculated using 10,000,000 (1994 - 5,258,333) common shares, being the weighted average number of common shares outstanding.

(e) Deferred costs:

Costs incurred by the Company during 1993 were capitalized and expensed upon commencement of active operations in 1994.

2. ACQUISITION OF GAMMA OILS INC.:

Effective March 31, 1994 the Company acquired all of the outstanding shares of Gamma Oils Inc. ("Gamma") for a total consideration of \$650,000. The Company and Gamma were amalgamated during 1994. The acquisition has been accounted for using the purchase method, with the results of operations included in these financial statements from the date of acquisition. The purchase price has been allocated to capital assets. During 1995, a note receivable from a director of Gamma, and a bank loan acquired in relation to the acquisition of Gamma, each in the amount of \$202,000, were received and repaid respectively.

3. CAPITAL ASSETS:

	1995	1994
Petroleum and natural gas properties	\$ 1,853,425	\$ 1,159,945
Furniture and equipment	11,266	7,639
	1,864,691	1,167,584
Accumulated depletion and depreciation	(445,370)	(358,128)
	\$ 1,419,321	\$ 809,456

At December 31, 1995 the costs of unproved properties not subject to depletion are \$538,000 (1994 - \$343,344). General and administrative costs related to property acquisitions, development and exploration amounted to \$145,000 in 1995.

4. SHARE CAPITAL:

- (a) Authorized:
 An unlimited number of common voting shares without nominal or par value
 An unlimited number of preferred shares, issuable in series.
- (b) Issued and approved for issuance :

	Common Shares		Special Warrants	
	Number	Amount	Number	Amount
Balance, December 31, 1993	2,750,000	\$ 155,000	2,300,000	\$ 407,150
Issued for cash, net of share issue costs of \$138,750	2,500,000	1,111,250	—	—
Issue of Special Warrants			200,000	40,000
Issued pursuant to acquisition of Gamma Oils Inc.	1,100,000	550,000	500,000	100,000
Conversion of Special Warrants into common shares	3,000,000	547,150	(3,000,000)	(547,150)
Issued in exchange for capital assets	500,000	50,000	—	—
Issued in exchange for promotional services	150,000	45,000	—	—
Balance, December 31, 1994 (1)	10,000,000	2,458,400	—	—
Purchase and cancellation of options	—	(15,000)	—	—
Balance, December 31, 1995 (1)	10,000,000	\$ 2,443,400	—	\$ —

(1) At December 31, 1995 and 1994 1,809,219 common shares issued are held in escrow and may not be released from escrow and traded without the written consent of the Alberta Securities Commission and the Alberta Stock Exchange.

- (c) Incentive stock option plan:
 At December 31, 1995, there were 825,000 (1994 - 850,000) outstanding options granted to officers, directors and employees of the Company with exercise prices ranging between \$0.20 and \$0.50. These options expire on various dates to 2000. Of these options, 675,000 have been granted to directors and officers at an exercise price of \$0.50 and the remaining 150,000 have been granted to employees at prices of \$0.20 and \$0.50.
- (d) Warrants:
 Pursuant to the initial public offering dated September 26, 1994, 2,500,000 warrants were issued. Two warrants entitled the holder thereof to acquire one common share of the Company at a price of \$0.75 per share. No value was assigned to these warrants by the Company and they expired in 1995.

5. RELATED PARTY TRANSACTIONS:

Certain Company officers, and a corporation in which an officer of the Company is a director and officer, may participate with the Company in joint venture operations under the same terms and conditions as those available to third parties.

6. INCOME TAXES:

The Company has non-capital losses and resource pools of approximately \$3.0 million available to reduce future years taxable income.

ALBERTA STOCK EXCHANGE... "PRE"
PANOIL RESOURCES LTD... SUITE 1111... HOME OIL TOWER... 324 - EIGHTH AVENUE S.W.
CALGARY... ALBERTA... CANADA T2P 2Z2... TEL: (403) 265 - 8555... FAX: (403) 266 - 0259